



# Appraisal Environmental and Social Review Summary

## Appraisal Stage

### **(ESRS Appraisal Stage)**

Date Prepared/Updated: 10/23/2023 | Report No: ESRSA03081



**I. BASIC INFORMATION**

**A. Basic Operation Data**

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P500589	Investment Project Financing (IPF)	DISC	2024
Operation Name	De-risking Importation of Strategic Commodities		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Malawi	Malawi	EASTERN AND SOUTHERN AFRICA	Finance, Competitiveness and Innovation
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Republic of Malawi	Reserve Bank of Malawi	20-Oct-2023	20-Nov-2023
Estimated Decision Review Date	Total Project Cost		
19-Oct-2023	75,000,000.00		

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**Proposed Development Objective**

The development objective of this project is to increase supply of trade finance for importation of essential commodities to Malawi. Definition: For the purpose of this Project Appraisal Document (PAD), essential commodities refers to fertilizer, pharmaceuticals and potentially more strategically important commodities which will be selected by the client, subject to a 'No Objection' from the World Bank.

**B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

Yes

**C. Summary Description of Proposed Project Activities**

This project, De-risking Importation of Strategic Commodities (DISC), aims to establish a foreign currency (FX) trade facility to Malawi in the amount of US\$ 60 million. The project aims is to de-risk importation of strategic commodities, particularly fertilizer and pharmaceuticals, by providing backstopping on payment obligations of local issuing banks to their correspondent confirming banks. Currently, correspondent banks lack confidence to extend letter of credit (LC)



lines to banks in Malawi due to the high-risk profile of local banks, which largely emanates from the country risk. The proposed facility will provide correspondent banks with the assurance that the WB will assume the payment obligations of the local issuing banks in the unlikely event that local banks default on their payment obligations on their LC commitments for essential commodities, thereby increasing correspondent banks' confidence to extend LC lines to local issuing banks. This project will provide a bridging solution to respond to the acute shortage of critical and lifesaving commodities in the local market which, if left unaddressed, has the potential to trigger a huge food insecurity and health crisis. In terms of financing instrument, the project will use an Investment Project Financing with a Deferred Drawdown Option (IPF-DDO). IPF-DDO is an optimal financing instrument for this operation as it addresses the underlying issue of credibility by backstopping LC transactions through a contingent financing, against pre-defined triggers.

**C 1 Application of OP4.03 and Scope of application of Performance Standards (PSs) and Environmental and Social Standards (ESSs):**

As the focus of this operation is letters of credit for backstopping of trade activities which are facilitated by private sector institutions to private sector institutions, OP4.03 is a more applicable framework than the ESF. The project will apply the World Bank's Performance Standards (PSs), including relevant WBG Environment, Health, and Safety (EHS) Guidelines, to all the activities implemented by Reserve Bank of Malawi (RBM) in lieu of the World Bank Environmental and Social Framework. The PSs are considered more suitable for this operation since its Environmental and Social Management System (ESMS) is based on the IFC Performance Standards, and its private sector clients – who are the focus of this project - are familiar with and are using them.

**D. Environmental and Social Overview**

**D.1 Overview of Environmental and Social Project Settings**

An acute lack of foreign currency is impeding businesses and is increasingly reflected in the shortage of imported goods, including fuel, fertilizer, pharmaceuticals, cement, and industrial inputs. Gross reserves in June 2023 were at US\$714.1 million (around 2.9 months of import cover). Monthly import requirements for June 2023 stood at US\$222, of which 27% is accounted by fuel, fertilizer and pharmaceuticals. As the official reserve reduces, Reserve Bank of Malawi (RBM) and the banking sector in Malawi are finding it difficult to finance these strategic imports. The project will be nationwide in scope as national banks will be eligible to apply for support from the confirming international banks, and the commodities once imported will enter the Malawi value chain and will be distributed throughout Malawi based on commercial needs. Distribution and the sale of commodities will be undertaken using national processes and standards.

**D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts**

The proposed operation will de-risk importation of strategic commodities to Malawi by providing foreign currency (FX) backstopping on payment obligations of participating financial intermediaries (local issuing banks) to their correspondent confirming banks.

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It is expected that the confirming banks will be international banks such as Citibank that have worked with other lenders, notably the IFC, and will therefore have Environmental and Social Management Systems (ESMSs) in place which can be adapted to meet the needs of this Operation. As such, the ESMS of the confirming banks will be assessed against the World Bank Performance Standards under OP4.03 which are aligned with private sector activities or where this review has taken place previously, documentation of this should be provided.

**Reserve Bank of Malawi**

To manage the reporting, safeguard and supervision functions of the operation, Reserve Bank of Malawi (RBM) will assign focal persons who will work closely with the FInES PIU. The FInES Project is currently rated as Moderately Unsatisfactory for safeguards due to constraints in the capacity of the Participating Financial Intermediaries (PFIs) and their alignment with the E&S requirements as well as supervision by the PIU of the same. An additional safeguard specialist will be required in this PIU to also support this operation. The safeguards specialists have not experienced a similar operation previously.

**Participating Financial Intermediaries**

The Participating Financial Intermediaries (PFIs) sometimes referred to as local issuing banks will include institutions that are participating in the existing Financial Inclusion and Entrepreneurship Scaling Project (FInES - P168577) where ESMS have been developed but which again will need to be updated to meet the needs of this specific operation. However, additional local issuing banks may apply to participate whose capacity to address E&S risks is unknown and will need to be assessed as they enter the project including development of an ESMS for approval.

**(GoM) Borrower’s Environmental and Social Framework**

The Borrower’s framework does not include provisions for this type of operation. The Borrower’s framework does not currently adequately meet the principles of the Bank’s ESF or OP4.03 Performance Standards. Therefore, the borrower’s framework will not be used for this operation.

An Environmental and Social Task Team (ESTT), consisting of a team of appropriately qualified ESHS consultants, will be established in the World Bank’s DISC Operation Project Management Team (PMT) to support the World Bank’s team to conduct a due diligence of each trade considering the safeguards and fiduciary requirements and compliance with the exclusion list and make recommendations to the TTL and World Bank for go/no-go decision making on the proposed trade.

**II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS**

**A. Environmental and Social Risk Classification (ESRC)**

Moderate

**A.1 Environmental Risk Rating**

Moderate

The environmental risk rating is moderate. The main risks relate to the limited capacity of the confirming banks and PFIs/ local issuing banks to manage environmental risks including ensuring that Environmental and Social Management Systems are in place and implemented proportionate to the nature and scale of their activities. As demonstrated through the FInES Project establishing and implementing ESMS has been a challenge within Malawi to date. Furthermore, the Borrower’s framework and the institutions overseeing import and distribution of the

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commodities have weak safeguard frameworks. Once purchased the commodities will enter the supply chain in Malawi through existing distribution channels using existing national systems. Poor road networks and road safety enforcement has resulted in multiple road accidents during commodity distribution. Furthermore, lack of community sensitization, especially children, to safety requirements of commodities e.g., Fertilizer, has resulted in multiple poisoning cases, as well as pollution of water resources. The ESMSs of the borrowing banks will be required to consider the safeguard frameworks for the procured commodities and recommend improvements especially regarding transportation, waste disposal, and community awareness to the safety issues of the commodities. The development of the ESMS will exclude activities that may present a significant or high environmental risk e.g., oil-based fuels, and ensure that systems are followed to address any evolving risks, the exclusions are to be included in the Financial Agreement. Until there is a default by an issuing the bank, the World Bank will not disburse funds to cover the line of credit within the operation.

**A.2 Social Risk Rating**

Low

The social risk rating is low. The main risks relate to the limited capacity of the confirming banks and PFIs/local issuing banks to manage social risks including ensuring there are Environmental and Social Management Systems in place proportionate to the nature and scale of their activities. As demonstrated through the FInES Project establishing and implementing ESMS has been a challenge within Malawi to date. However, given the nature of the activity’s significant negative impacts to communities, vulnerable groups and other stakeholders are not anticipated and as such the risk of the capacity gap is limited. There is a need for proportionate communication methods to be in place including for responding to concerns and complaints from stakeholders. Once purchased the commodities will enter the supply chain in Malawi through existing distribution channels using existing national systems. The ESMS will need to include requirements to ensure that distribution does not exclude vulnerable groups or those most in need. Further the exclusion list will further mitigate the risk of financing operations that may present a social risk.

**B. Performance Standards that Apply to the Activities Being Considered**

**B.1 Relevance of Performance Standards**

**Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts**

Relevant

The OP 4.03 will apply to the operation. The following World Bank Group’s (WBG) Performance Standards (PSs) that have been assessed as relevant at this stage of project preparation: PS1, PS2, PS3, PS4, PS8.

All Non-Private and Private Activities will apply relevant WBG Environment, Health, and Safety (EHS) Guidelines, Good Practice Notes and relevant Good International Industry Practice (GIIP). In addition to WBG’s PS, national standards and permitting requirements will apply. RBM will update its existing Environment and Social Management System (ESMS) where applicable to include specific requirements and procedures relevant to this operation (ie environment and social review of trade finance procedures involving PFIs/local issuing banks), and disclose it prior to project effectiveness.

As the specific trades have not yet commenced and extent of supply and distribution is currently unknown and each trade specific, risk and impact assessments have not been conducted. As per IFC procedures, a due diligence compiled by the ESTT, for each trade against E&S requirements is conducted and refereed to the World Bank for go/no-go decision. The World Bank’s E&S Safeguards team will provide a post-review of the due diligence and provide recommendations for improving future due diligence.

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Requirements for stakeholder engagement and information disclosure for private sector led activities are included in PS1. RBM, ICCBs and LIBs will need to develop, disclose and implement an external communication mechanism to receive, register, screen and assess, track, respond to, and act upon external inquiries and complaints from the public regarding their operations. Where systems are already in place these should be updated to incorporate this operation.

**PS2 - Labor and Working Conditions**

Relevant

The supply, handling and distribution of each trade will involve direct, contracted workers, subcontractors, and potentially community labor, in carrying out these activities. The due diligence will consider the PS2 requirements and labor requirements and working conditions applicable to the PFIs/ local issuing bank and trades, including child labor, OHS requirements, labor GRM, amongst others. There is no influx of labor expected as a result of the operation. RBM consists of Government Civil Servants who remain under their existing terms and conditions of employment.

**PS3 - Resource Efficiency and Pollution Prevention**

Relevant

The due diligence for each trade will consider the resource efficiency and pollution prevention potential risks and impacts for each trade, including the handling, storage, disposal, waste management and emergency procedures related to the specific commodities. Procedures should consider impacts to biodiversity conservation and natural resources especially water resources. Relevant information will be submitted to the ESTT through RBM in order to ensure the due diligence for each trade can be undertaken.

**PS4 - Community Health, Safety and Security**

Relevant

The due diligence for each trade will consider the potential risks and impacts to community health, safety and security of each trade, include the risks of bulk storage of fertilizer, necessary community awareness of the commodities e.g., awareness to prevent children eating the fertilizer, etc. Community safety should also consider the means of transport of commodities for distribution. Relevant information will be submitted to the ESTT through RBM in order to ensure the due diligence for each trade can be undertaken.

**PS5 - Land Acquisition and Involuntary Resettlement**

Not Currently Relevant

No land acquisition or involuntary resettlement is currently anticipated as a result of this operation.

**PS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources**

Not Currently Relevant

No direct impact to biodiversity or living natural resources is anticipated. Indirect impacts through spills and accidents may occur, which is to be considered in PS3.

**PS7 - Indigenous Peoples**

Not Currently Relevant

There are no groups who meet the definition of Indigenous Peoples in Malawi as such, PS7 is not relevant.

**PS8 - Cultural Heritage**

Not Currently Relevant

No impact to cultural heritage is currently anticipated as a result of this operation.

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**B.2 Legal Operational Policies that Apply**

**OP 7.50 Operations on International Waterways**

No

**OP 7.60 Operations in Disputed Areas**

No

**B.3 Other Salient Features**

**Use of Borrower Framework**

No

N/A

**Use of Common Approach**

No

N/A

**C. Overview of Required Environmental and Social Risk Management Activities**

**C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?**

Actions to be completed prior to Bank Board Approval are to adopt the IFC exclusion list is adopted for this operation and is to be included in the Financing and Legal Agreement.

Prior to effectiveness:

- The DISC Operation ESTT to conduct due diligences of each trade finance and associated procedures to be established.
- ESMS of initial local and international participating Banks to be reviewed by the ESTT.

Additional Safeguard Specialist to be included to FInES PIU to support project operational aspects.

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**III. CONTACT POINT**

**World Bank**

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**IV. FOR MORE INFORMATION CONTACT**



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**V. APPROVAL**

Task Team Leader(s):	Isfandyar Zaman Khan, Mengistu Bessir Achew
Practice Manager (ENR/Social)	Helene Carlsson Rex Recommended on 24-Oct-2023
Safeguards Advisor ESSA	Martin Lenihan (SAESSA) Concurred on 24-Oct-2023

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